

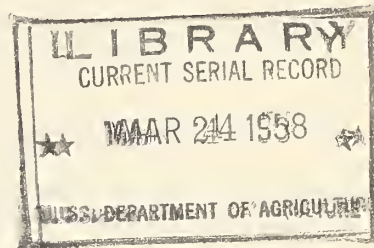
Historic, archived document

Do not assume content reflects current
scientific knowledge, policies, or practices.

281.9
= 76 Fm

5c
FEBRUARY 1958 //

3



PRICE SUPPORT IN THE UNITED KINGDOM

U.S. Foreign Agricultural Service • FAS-M-33 //

U. S. D E P A R T M E N T O F A G R I C U L T U R E



PRICE SUPPORT IN THE UNITED KINGDOM

By Lois Bacon, European Analysis Branch

The System

Britain guarantees prices of products that make up about 80 percent of the value of farm output: Fatstock (cattle, hogs, sheep and lambs), milk, eggs, wool, wheat, rye, barley, oats (including mixed grain), potatoes, and sugar beets. These price guarantees are given under the Agriculture Act, 1947, which is the main basis of postwar agricultural policy.

While the government controlled the trade in food, guaranteed prices were generally fixed prices. In 1954, having largely returned the trade to private hands, the government adopted a deficiency payments system or some other type of producer subsidy system to meet price guarantees for products other than sugar beets and wool. These subsidy systems permit the free or partly free ^{1/} formation of market prices. Broadly speaking, if the average market price falls short of the guaranteed price, the government closes the gap with subsidy payments which, in the end, go to the producer.

The government also makes production grants for fertilizers, lime, plowing up grassland, and various other purposes designed to increase farming efficiency. Price guarantees and production grants together are what is called agricultural guarantees, and the total paid by the government under these two heads is the figure usually given as the cost of agricultural support.

Agricultural guarantees are determined annually, after the government holds a review, in consultation with the National Farmers' Unions, of the conditions and prospects of agriculture. Factors considered include production progress, changes in farm income, changes in farm costs, improvements in efficiency, the balance of payments, the subsidy burden, and other relevant matters. Special reviews may be held during the year if warranted by sudden substantial changes in costs or other special causes; arrangements recently made provide for holding such reviews only to meet exceptional circumstances, namely, if any one cost rises by 0.75 percent or more of the total value of the guarantees.

^{1/} The markets for milk, potatoes, and, since July 1, 1957, domestic eggs are regulated by producer-controlled Marketing Boards, with statutory powers; government guarantees are to the boards, not to the producers as such. There is also a Wool Marketing Board, but the board operates a stabilization arrangement and is expected, over the years, to pay farmers the guaranteed price without expense to the Exchequer.

TABLE 1.--Food and feeds: Production as a percentage of total availabilities, averages, prewar, 1950/51-1952/53, and 1953/54-1955/56

Product	Prewar	1950/51-1952/53	1953/54-1955/56
	Percent	Percent	Percent
Bread grain-----	23	35	36
Feed grains-----	38	68	65
Potatoes-----	97	99	96
Sugar-----	21	33	27
Beef and veal-----	38	66	56
Pork (incl. bacon)-----	46	57	61
Eggs in shell-----	66	77	82
Fluid milk-----	100	100	100
Canned milk-----	74	76	110
Dried milk-----	62	37	52
Cheese-----	24	26	37
Butter-----	9	5	8
Other fats and oils-----	19	11	15
All food and feeds:			
Calorie terms 1/-----	22	36	34
Money terms 2/-----	3/36	(4/)	5/49

1/ FAS estimates. Livestock products produced from imported feed are counted as imports.

2/ Estimates of E. F. Nash (see Source) adjusted to exclude imports of fertilizer and fuel for agriculture.

3/ 1938.

4/ Not available.

5/ 1954.

Source: For commodity percentages, Organization for European Economic Co-operation, Agricultural and Food Statistics, Paris, 1956; and for all food and feeds in money terms, Proceedings of Conference "Agriculture in the British Economy," Nov. 15-17, 1956, Part I, Paper 3, "The Sources of Our Food Supplies," by E. F. Nash.

Production and Guarantee Objectives

Until recently, the main aim was to increase output from domestic resources first to 50 and then to 60 percent above prewar. The latter goal was almost reached in 1955/56, according to official calculations, thanks to generous price supports and marked technological progress. Even so, domestic agriculture provides only about half of the money value, or little more than one-third of the calorie value, of Britain's food supply. The deficit ranges from 84 percent for fats and oils down to zero for fluid milk. Total imports of food, feed, and tobacco in 1956 came to the equivalent of \$4.4 billion, or 40 percent of the value of all imports.

Since 1954, production aims have shifted. Stress is now laid on producing the most that can be produced efficiently and economically, with maximum

TABLE 2.--Review products: Price guarantees, marketing seasons 1954/55 to 1957/58 1/

Product	Unit	1954/55	1955/56 <u>2/</u>	1956/57 <u>2/</u>	1957/58
		U. S. dol. <u>3/</u>	U. S. dol. <u>3/</u>	U. S. dol. <u>3/</u>	U. S. dol. <u>3/</u>
Wheat <u>4/</u> -----	Bushel-----	2.31	2.25	2.25	2.14
Rye-----	---do-----	1.75	1.63	1.63	1.55
Barley-----	---do-----	1.53	1.48	1.57	<u>5/</u> 1.74
Oats-----	---do-----	.96	.93	1.03	1.10
Potatoes <u>4/</u> -----	---do-----	.93	.81	.83	.84
Sugar beets <u>6/</u> -----	Short ton---	15.70	15.95	16.31	16.31
Fat cattle <u>7/</u> -----	100 lb. <u>8/</u> ---	16.65	17.33	18.88	19.50
Fat sheep and lambs-----	---do <u>9/</u> ---	40.25	42.00	44.33	46.08
Fat hogs <u>10/</u> -----	---do <u>11/</u> ---	35.88	<u>12/</u> 35.94	<u>13/</u> 34.71	<u>14/</u> 36.34
Wool, greasy <u>4/</u> -----	Pound-----	.63	.68	.66	.66
Milk <u>4/</u> -----	100 lb.-----	4.20	4.29	4.35	4.37
Eggs: <u>10/</u>	:	:	:	:	:
Hen <u>4/</u> -----	Dozen-----	.56	<u>15/</u> .58	.58	<u>16/</u> .58
Duck <u>4/</u> -----	---do-----	.38	<u>15/</u> .39	.33	<u>16/</u> .34

1/ For price guarantee purposes, the marketing season for livestock products is April-March. 2/ Includes Special Review additions for crops; guarantees for livestock products were adjusted for only the last 61.5 days of the year. 3/ Converted from pounds sterling at rate of \$2.80 to the pound. 4/ Average. 5/ New basis. On the new basis the guarantee for 1956/57 would have been \$1.71 per bushel. 6/ 16.5 percent sugar content. 7/ Steers and heifers only for 1957/58; special young cows also for other years. 8/ Live weight. 9/ Dressed weight. 10/ Automatically related to cost of standard feed rations. 11/ Dead weight. 12/ Equivalent to \$34.12 related to 1954/55 feed price. 13/ Equivalent to \$35.58 related to 1955/56 feed price. 14/ Equivalent to \$34.71 related to 1956/57 feed price and standard ration, which was modified in 1957. 15/ Equivalent to one cent less per dozen related to 1954/55 feed price. 16/ Equivalent to 2 cents less per dozen related to 1956/57 feed price and standard ration, which was modified in 1957.

Source: Annual Review and Determination of Guarantees, 1954, Cmd. 9104; 1955, Cmd. 9406; 1956, Cmd. 9721; and 1957, Cmd. 109.

relief to the balance of payments, and consistent with a proper return for agriculture, and an adequate return on capital invested in it. This calls, in the government's view, for maintaining arable acreage at about the present size but emphasizing feed crops more; reducing dependence on imported feeds; and producing more beef and lamb, but no more pork or wheat, and less milk and eggs.

Changes in Guarantees

In line with the stated aims, the government has increased production grants, and tried to adjust price guarantees in such a way as to promote the desired adjustments in production. Thus, over the past 4 years, guarantees for feed grains and especially fat cattle, sheep, and lambs have been

TABLE 3.--Farm costs and guarantees at Annual Review: Aggregate cost changes taken into account, and changes made in total value of guarantees, 1954-57

Year of review	Cost changes		Guarantee value changes
	All products	Review products	
	Mil. dol. 1/	Mil. dol. 1/	Mil. dol. 1/
1954-----	- 15	- 19	(2/)
1955-----	+128	+110	+78
1956-----	+121	+ 99	+70
1957-----	+135	+105	+39

1/ Converted from pounds sterling at the rate of \$2.80 to the pound.

2/ Not available, but there was a decrease.

Source: Annual Review and Determination of Guarantees, 1954, Cmd. 9104; 1955, Cmd. 9406; 1956, Cmd. 9721; and 1957, Cmd. 109.

increased, whereas the guarantees for wheat, hogs, and eggs have been somewhat reduced. Though the milk price guarantee was increased slightly three times, it has been limited since 1954 to a standard quantity, which is related to sales for fluid consumption, and which has remained unchanged except for a minor adjustment in 1957.

The government has also taken the position that increases in efficiency enable producers to absorb some of the increase in farm costs. It has increased the total value of the guarantees (price guarantees plus production grants), but by less than the increase in costs for review products. The annual gap between the two has ranged (in dollar equivalent) from \$29 million to \$66 million in the past 3 years. This compares with increases in efficiency that can be valued at \$70 million a year for review products, according to the government's broad estimate. 2/

Cost of Guarantees

An increase in the value of the agricultural guarantees does not necessarily mean an increase in their cost, since the latter depends mainly on the trend of market prices and on the volume and kind of output. As things developed, the cost of the guarantees (including administrative overhead) in fiscal 1955/56, which was originally forecast at nearly \$710 million, actually amounted to about \$575 million. But this cost rose in fiscal 1956/57 to more than \$675 million, a sum equal to about three-fourths of farm operators' net income from farming 3/ and about one-third of the total net income from agriculture.

2/ Annual Review and Determination of Guarantees, 1957, Cmd. 109, p.4. See also Annual Review, 1956, Cmd. 9721, p.3, and 1955, Cmd. 9406, p.9.

3/ As estimated by the Ministry of Agriculture in its "Departmental" calculation. If calculated as the U.S. Department of Agriculture does its series, farm operators' net income from farming would still form a smaller part of total net income from agriculture in the United Kingdom than in the United States, because of the high proportion of tenants and of hired labor on British farms.

The rise in cost in 1956/57 was caused mainly by increased payments on fat cattle, eggs, and production grants, which more than offset decreased payments on fat hogs, milk, and grain.

Fat cattle.--Market prices had been mostly above the guaranteed price level in 1955/56. The price guarantee for 1956/57 was increased by 9 percent. At the same time, market prices dropped sharply under the impact of increased supplies of home-produced beef and a marked rise in chilled beef imports from Argentina. Subsidy payments therefore swelled. Nevertheless, the government again increased the price guarantee in 1957.

Eggs.--The egg guarantee in 1956/57 remained unchanged. However, production was unexpectedly large in the later winter and spring. Market prices fell so low that imports dwindled, and Britain even became temporarily an exporter of eggs. According to official estimates, producer subsidies on the 44.46 million eggs exported in the 4 months January-April 1957 exceeded the export value of the eggs.

The government is not prepared to continue paying a heavy subsidy on eggs, which are produced at considerable expense in imported feed. In 1957, it reduced the price guarantee for hen eggs by 3.5 percent, with the aim of cutting output. This price reduction will probably not reverse the upward trend in output, and eggs may again become a problem during the next flush season. If so, surplus disposal through exports is not likely to occur. Following protests of the Danes both to the British Government and to GATT, Britain undertook to prevent the export of subsidized eggs to traditional Danish and Dutch export markets. To this end, an export licensing system was instituted on September 1, 1957.

Fat hogs.--Production of pork (including bacon) reached its peak in 1954/55. The guaranteed price was cut by 5 percent in the spring of 1955. Production dropped by 13 percent in 1955/56, and stayed at much the same level in 1956/57, when the guaranteed price level was again cut somewhat. Stating that no increase in the guarantee could be justified, the government left it unchanged for 1957/58.⁴ This was expected to mean no great change in profitability, since the guarantee price varies automatically according to changes in feed costs, the largest element in cost of production.⁵ However, producers re-expanded hog production in 1957. September returns for England and Wales showed the breeding herd up by 12 percent over 1956, and only 3 percent short of the peak reached in 1954. Imports of bacon and pork also increased, and market prices broke sharply.

Milk.--Downward adjustments of the guarantees for eggs, hogs, and milk all hit the numerous small farmers particularly, and are therefore not easily made. Indeed, in 1956, for the first time, the National Farmers' Unions refused to go along with the annual guarantee awards, largely on the grounds that the increase in the milk guarantee was too slight and penalized small producers unduly. Total milk production nevertheless showed a large increase in 1956/57. But since the full price guarantee is limited to a standard quantity, and since the government, which fixes retail prices of fluid milk, increased it twice during the year, the cost of the guarantee to the Exchequer decreased. Average prices to producers, a blend of the prices received for fluid sales and sales for manufacture, dropped well below the full guaranteed price -- in England and Wales by 5 percent (before deduction for

⁴/ Op cit. Annual Review, 1957, p. 6

⁵/ Ibid. Eggs are the only other livestock product whose guarantee price varies automatically according to changes in feed costs.

TABLE 4.--Agricultural support: Estimated cost of price guarantees by commodities, and production grants, fiscal year beginning April 1, 1954-57

Kind of payment and commodity	1954 ^{1/}	1955	1956	1957 ^{2/}
	Mil. dol. ^{3/}	Mil. dol. ^{3/}	Mil. dol. ^{3/}	Mil. dol. ^{3/}
Subsidy payments under price guarantees:				
Wheat and rye-----	67	71	44	(4/)
Barley-----	32	30	25	(4/)
Oats and mixed grain-----	5	-	4	(4/)
Total grain-----	104	101	73	76
Fat cattle-----	29	1	95	(4/)
Fat sheep-----	35	14	26	(4/)
Fat hogs-----	159	131	88	(4/)
Total fatstock-----	5/227	146	209	231
Home produced eggs ^{6/} -----	64	53	113	92
Milk ^{7/} -----	103	97	62	23
Potatoes ^{6/} -----	31	2	4	24
Wool-----	-	-	1	3
Total price subsidies-----	529	399	462	449
Production grants-----	141	162	200	8/205
Total cost of agricultural support ^{9/--}	670	561	662	8/654

^{1/} Includes trading deficits. ^{2/} Forecast. ^{3/} Converted from pounds sterling at the rate of \$2.80 to the pound. ^{4/} Not available. ^{5/} Estimate for total is later than estimate for kinds of fatstock. ^{6/} Includes trading subsidies in implementation of guarantees. ^{7/} Excludes school and welfare milk and includes an element of consumer subsidy. ^{8/} Excludes payments, if any, under new grant program for modernization of agriculture. ^{9/} Excludes administrative overhead, which amounted to some \$15 million (dollar equivalent) in 1955/56 and 1956/57.

Source: Hansard, Dec. 5, 1955, Feb. 14, 1957, and Mar. 25, 1957; and Civil Estimates for the year ending 31st. March 1958, Class VIII, Agriculture and Food, February 1957.

certain premiums and administrative expenses). The surplus was so large for a time that the factories could not utilize it all, and some was wasted.

Because milk supplies for manufacture, like eggs and hogs, are produced at considerable expense in imported feed, because they threaten to exceed manufacturing capacity in the flush season, and because ample supplies of milk products are available from British Commonwealth countries, the government felt a reduction in output would be in the national interest. It therefore decided, not to decrease the guarantee, but to increase it by the equivalent of only 2.8 cents per 100 pounds, recognizing that this, together with the minor adjustment in the standard quantity, "will mean in 1957/58 a further net reduction in profitability per gallon at the current level of output." ^{6/} With retail prices at present levels, the cost of the guarantee to the Exchequer should drop sharply. The Milk Marketing Board for England and Wales has allowed in its budget for 1957/58 for a further increase in production and some decline in average pool earnings.

Grains.--The wheat price guarantee was the same for 1956/57 as for the preceding season, and the crop was large. Though wheat payments decreased in fiscal 1956/57, they increased in the marketing year. The government, expressing a wish to see relatively less wheat in the grain acreage "at a time when there are large wheat surpluses, especially in the Commonwealth," ^{7/} cut the wheat guarantee by 4 percent.

In contrast to wheat, the guarantees for barley and oats were increased in 1956 and again in 1957. The increase in 1957 was as much as 7 percent for oats, a crop important to many small farmers.

Potatoes.--Unlike other price guarantees, the potato guarantee is a minimum or support price designed to support growers' returns in years of high yields only. Yields were high in 1956, and the quantities offered to the Potato Marketing Board were large. The board in Great Britain and the Ministry of Agriculture in Northern Ireland stand ready to take, at the support price, all offers of standard quality potatoes, and such potatoes may not be sold for human consumption at less than the support price. Losses in disposing of the potato surplus are borne mostly by the government, and those on the 1956 crop show up mainly in the estimates for fiscal 1957/58. The acreage planted to potatoes in 1957 dropped by about one-tenth, and production by one-fourth. In December the government relaxed import restrictions on potatoes until June 30, 1958.

Evaluation and Outlook

The British system of price support involves relatively little interference with market prices. Tariffs, import controls, monopoly marketing powers, and the like influence wholesale prices of some products, but most of the cost of agricultural support appears in the budget.

For Britain, with its balance of payments difficulties, a crucial question often debated is whether today the cost of supporting output at current high levels outweighs or is outweighed by the savings made on imports of food and feed. Answers given by British economists differ, basically in accordance with their assessment of the prospect for the country's export trade and prices of food produced abroad. At a conference a year ago, for example, Professor E. A. G. Robinson held that farm output will need to expand by

^{6/} Op. cit. Annual Review, 1957, p.6.

^{7/} Ibid., p. 7.

TABLE 5.--Agricultural products: Acreage and production, year beginning June 1, average 1936-38, annual 1946 and 1953-56

Product	Average 1936-38	1946	1953	1954	1955	1956 ^{1/}
	<u>1,000</u> <u>acres</u>	<u>1,000</u> <u>acres</u>	<u>1,000</u> <u>acres</u>	<u>1,000</u> <u>acres</u>	<u>1,000</u> <u>acres</u>	<u>1,000</u> <u>acres</u>
Crop acreages:						
Wheat-----	1,856	2,062	2,217	2,457	1,948	2,283
Rye-----	16	55	68	44	19	26
Barley-----	929	2,211	2,226	2,063	2,296	2,336
Oats-----	2,403	3,567	2,840	2,588	2,581	2,575
Mixed corn-----	97	458	804	602	463	422
Potatoes-----	723	1,423	985	945	874	926
Sugar beet-----	335	436	415	437	424	427
All tillage-----	8,907	13,300	12,304	11,832	11,301	11,517
Temporary grass-----	4,180	5,679	5,803	6,032	6,241	6,155
Total arable-----	13,088	18,980	18,107	17,864	17,542	17,672
	<u>1,000</u> <u>long</u> <u>tons</u>	<u>1,000</u> <u>long</u> <u>tons</u>	<u>1,000</u> <u>long</u> <u>tons</u>	<u>1,000</u> <u>long</u> <u>tons</u>	<u>1,000</u> <u>long</u> <u>tons</u>	<u>1,000</u> <u>long</u> <u>tons</u>
Crop production:						
Wheat-----	1,651	1,967	2,664	2,783	2,599	2,830
Rye-----	10	39	66	39	19	25
Barley-----	765	1,963	2,521	2,244	2,936	2,813
Oats-----	1,940	2,903	2,821	2,440	2,709	2,496
Mixed corn-----	76	350	845	555	510	412
Potatoes-----	4,873	10,166	8,260	7,325	6,278	7,578
Sugar beet-----	2,741	4,522	5,275	4,521	4,556	5,235
Livestock products:						
Eggs ^{2/} -----	385	322	525	550	564	594
Beef and veal-----	578	537	637	797	687	782
Mutton and lamb-----	195	141	176	182	191	199
Pork(incl.bacon) ^{2/} ---	435	211	606	757	660	661
Wool (clip)-----	34	27	33	34	32	32
	<u>Mil.</u> <u>imp.</u> <u>gal.</u>	<u>Mil.</u> <u>imp.</u> <u>gal.</u>	<u>Mil.</u> <u>imp.</u> <u>gal.</u>	<u>Mil.</u> <u>imp.</u> <u>gal.</u>	<u>Mil.</u> <u>imp.</u> <u>gal.</u>	<u>Mil.</u> <u>imp.</u> <u>gal.</u>
Milk-----	1,556	1,653	2,158	2,141	2,207	2,335

^{1/} As forecast at the 1957 Price Review, held in February-March.

^{2/} Includes estimated production from units under one acre, e. g. gardens, pig clubs, etc.

Source: Annual Review and Determination of Guarantees, 1957, Cmnd. 109.

another 20 percent in the next 10 years, as Britain will not be able to pay for all the imports required to meet the country's growing demand for food.^{8/} Professor E. F. Nash, on the other hand, felt it very probable that the present level of farm output is above the optimum in present circumstances, and that the country would probably stand to gain economically, now and over the next decade, by shifting some of the resources now consumed by agriculture into other sectors of the economy. ^{9/}

Price guarantees have also been criticized for encouraging wasteful uses of resources within agriculture. Judged by this criterion, some agricultural economists conclude that in recent years beef, mutton, and lamb have not received enough support, whereas wheat, sugar beets, milk, pork, and eggs have received too much. It is quite possible, Professor Nash points out, that a part of the subsidized pork and milk production, depending on feed from abroad, has added more to Britain's import bill than it has saved, and the same may be said of some of the eggs produced. ^{9/}

The last two annual reviews show that the government is in general agreement with these conclusions. If the steps it has taken to improve the price structure have been small, they are nevertheless impressive, considering the opposition to decreases in guarantees, especially in periods of rising costs. The National Farmers' Unions, whose membership includes numerous small farmers, play a leading role in the determination of price guarantee levels. The process has been characterized by Professor Nash as collective bargaining,^{10/} and by the London Times as horse trading.^{11/} Though no bargain could be struck in the spring of 1956, the unions finally agreed to the 1957 awards "in the light of the very serious national economic situation." ^{12/}

In the meantime, the unions had obtained from the government specific long-term assurances for agriculture. These assurances, now embodied in law, limit the government in decreasing guarantees. Price guarantees for individual products (adjusted for any changes in the basis of the guarantee) may not be reduced by more than 4 percent a year; guarantees for livestock products may not be reduced by more than 9 percent in any 3-year period; and the total value of guarantees, after adjustment for changes in farm costs, may not be reduced by more than 2.5 percent a year. These percentages are subject to review in 1960 and from time to time thereafter.

The long-term assurances also include a new 10-year program of grants to promote modernization of permanent fixed equipment on farms and long-term improvements to land. These grants are intended, in the words of the

^{8/} Proceedings of Conference "Agriculture in the British Economy," November 15-17, 1956. The Netherhall Press Limited, London, March 1957, Part I, Paper 2, "Agriculture's Place in the National Economy," pp. 21-28.

^{9/} Ibid., Part I, Paper 3, "The Sources of Our Food Supplies," pp. 47-58. See also Dr. John R. Raeburn's discussion of Professor Nash's paper, pp. 58-70.

^{10/} E. F. Nash, "Some Reflections on Agricultural Policy," Lloyds Bank Review, July 1956, p. 51.

^{11/} March 22, 1957.

^{12/} National Farmers Union, "Price Review, 1957," NFU News, Cyclo. 501/57, Press 22, March 21, 1957.

OFFICIAL BUSINESS

government, to increase the rate of long-term investment that is so essential for more efficient and economic production. 13/ They will amount to one-third of the cost of approved projects. Many have objected that the farmers who need them most will not be able to raise the other two-thirds.

Since the Agriculture Act of 1947 already committed the government to strong protection of agriculture, many have also questioned the need for additional long-term assurances. In the view of the government and the Farmers' Unions, however, they provide the necessary sound and satisfactory basis for good forward planning and investment in agriculture.

13/ Ministry of Agriculture, Fisheries, and Food, "Long-term Assurances for Agriculture," Press Notice 419/56 of November 27, 1956.

